comparing the united states with other countries

chapter three

The global economy requires American workers to compete with those of other countries. It also requires a careful analysis of how our labor market competes with those of other countries. This chapter provides valuable comparative information that can be used to illustrate the economic and labor market performance of the United States relative to other G-7 countries: Canada, Japan, France, Germany, Italy, and the United Kingdom. By looking at all aspects of our workforce — employment levels, jobless rates, labor market flexibility measures, and hours worked — we see the many advantages of the U.S. economy.

Using data from the most current years for which internationally comparable data are available, we show that the United States performs well. America has achieved low unemployment, low taxes, and substantial labor and product market flexibility.

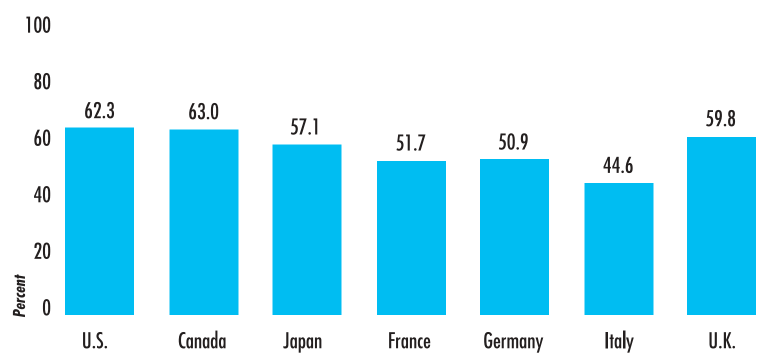
Percent of Population Working

The question of how many people are working is vital to an economy's well-being. Are there enough jobs so that those who choose to work can do so? Can unemployed people quickly find a job? Is the number of jobs increasing? Although there may be people who choose not to have paid employment, such as parents, retirees, or lottery winners, the availability of employment for those who want it is a tremendous advantage.

The employment-population ratio measures the proportion of the working-age population that is employed. It is particularly helpful in discerning whether job growth is keeping pace with population growth.

In 2003, 62.3 percent of the U.S. working-age population was employed. (See Chart 3.1.)

Chart 3.1 **Employment as a Percent of the Working-Age Population, G-7 Countries, 2003**



Source: Bureau of Labor Statistics

This was higher than Japan and especially countries in continental Europe. The ratio was 51.7 percent in France, 50.9 percent in Germany and 44.6 percent in Italy. The United States has had a higher employment-population ratio than Europe since 1967, and a higher ratio than Japan and Canada beginning in 1994. (See Chart 3.2.) In fact, the ratio in Japan has been falling throughout most of the 1990s.

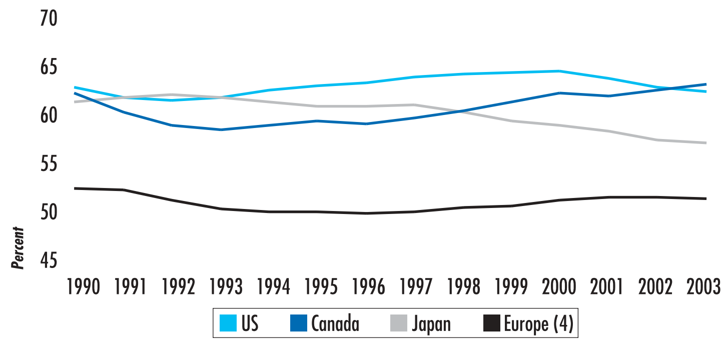
In general, employment growth is much stronger in the United States and Canada than in the other G-7 countries. (See Chart 3.3) It is very weak in Japan, where employment has diminished over the past five years, nearly returning to its 1990 level, with people moving out of the labor force.

Unemployment Rates

In the first quarter of 2004 the unemployment rate varied widely among the G-7 countries, from around 5 percent in the United Kingdom and Japan to 9.3 percent in France and Germany in first quarter of 2004. (See Chart 3.4.) The unemployment rate was 5.6 percent in the United States. Among the G-7 countries, only Japan and the United Kingdom had lower unemployment rates than the United States.

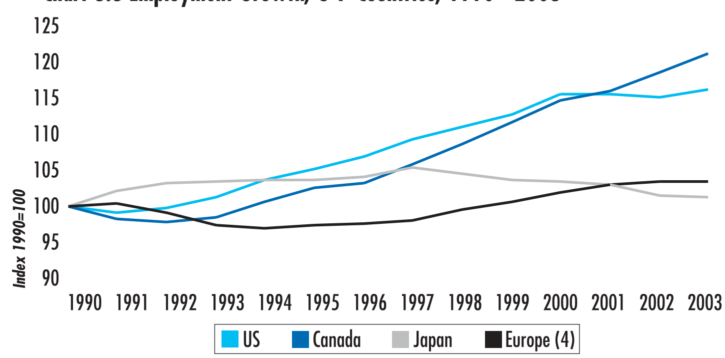
The more robust employment situation in these three countries is supported by the duration of unemployment figures in Chart 3.5. In 2003 long-term unemployment of six months or longer was lowest in Canada at 18.6 percent of total unemployment, followed by the United States at 22.0

Chart 3.2 **Employment as a Percent of the Working-Age Population, G-7 Countries, 1990-2003**



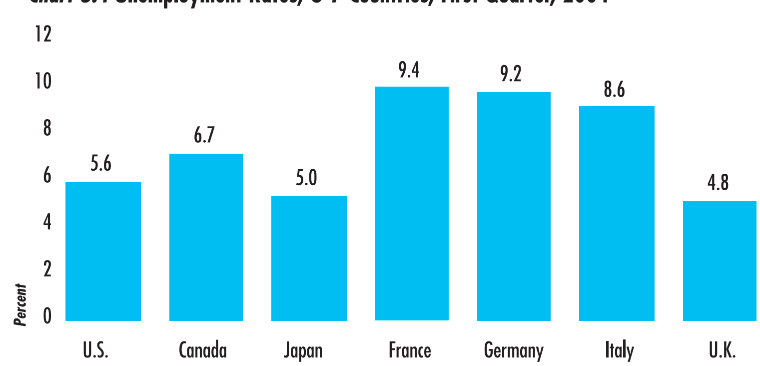
Note: Europe (4) refers to France, Germany, Italy, and the United Kingdom.
Source: Bureau of Labor Statistics

Chart 3.3 **Employment Growth, G-7 Countries, 1990 - 2003**



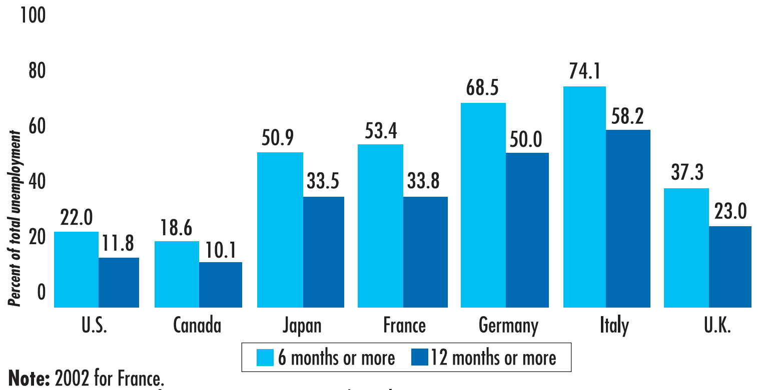
Note: Europe (4) refers to France, Germany, Italy, and the United Kingdom.
Source: Bureau of Labor Statistics

Chart 3.4 **Unemployment Rates, G-7 Countries, First Quarter, 2004**



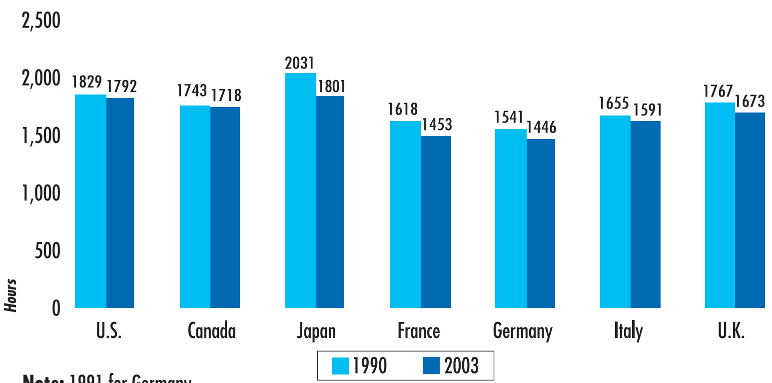
Note: Data for Italy is for the first month of the quarter.
Source: Bureau of Labor Statistics

Chart 3.5 **Incidence of Long-Term Unemployment, G-7 Countries, 2003**



Note: 2002 for France.
Source: Organization for Economic Cooperation and Development

Chart 3.6 **Annual Hours Worked per Employed Person, G-7 Countries, 1990 and 2003**



Note: 1991 for Germany.
Source: Organization for Economic Cooperation and Development

percent and the United Kingdom at 37.3 percent. At the other end of the spectrum, 74.1 percent of unemployed Italians were unemployed for six months or more.

When looking at those unemployed longer than a year, in 2003 only 11.8 percent of unemployed U.S. workers were unemployed for longer than a year, compared with 23.0 percent in the United Kingdom, and 58.2 percent in Italy.

Italy, followed by Germany, had the highest share of long-term unemployed under either measure. For example, nearly three-fourths of the unemployed in Italy, and more than two-thirds in Germany, were unemployed for six months or longer.

Taxes and Hours of Work

Americans work more. In 2003 annual hours worked were lowest in Europe, especially in Germany and France, and highest in Japan, followed by the United States. Annual hours of work in each of the G-7 industrialized countries declined between 1990 and 2003, but Japan and the United States were significantly ahead in terms of work hours. (See Chart 3.6.)

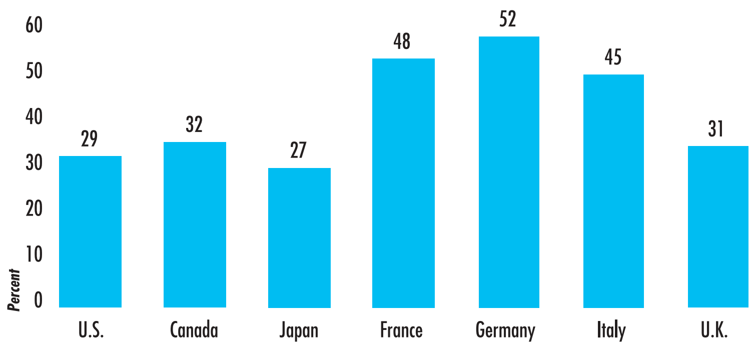
There are two possible reasons for the decline in annual hours worked. As people become better off, they may choose more free time to more income. Second, as taxes collected by the government increase, the incentive to work may be adversely affected.

American businesses and workers pay less in taxes. The Organization for Economic Cooperation and Development (OECD) publishes annually a useful concept termed the “tax burden on labor.” The tax burden on labor is the difference between what employers pay out in wages and social security charges and what employees take home after tax and social security deductions plus cash benefits. (Taxes on labor exclude value added taxes and other indirect taxes that are paid by workers in the price of the goods that they purchase.) The tax burden is a measure of how much an employer pays out in wages and taxes minus worker's take-home pay. It is equivalent to the sum of the taxes paid on labor by the employer and the worker.

Chart 3.7 shows that in 2003, the tax burden of the G-7 countries was lowest in Japan at 27 percent, followed by the United States at 29 percent. It was the highest in Germany at 52 percent. This was the case even though all of the G-7 European countries have been reducing taxes on labor.

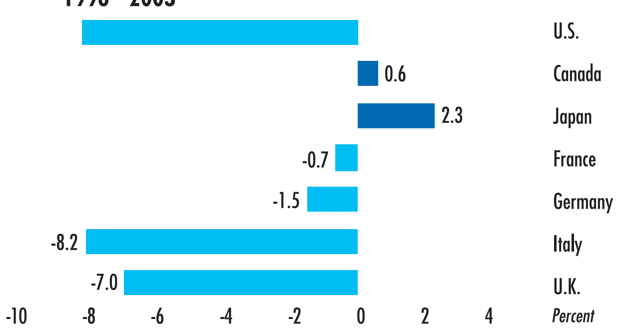
Chart 3.8 shows changes in the tax burden in the G-7 countries between 1996 and 2003. All but two countries showed lower taxes. The United States posted the largest decline at 8.3 percent. Italy and the United Kingdom had declines of 8.2 and 7.0 percent respectively. In contrast, the relative tax on labor increased in Japan by 2.3 percent and in Canada by 0.6 percent.

Chart 3.7 **Percent of Labor Costs Paid in Social Security and Income Taxes, G-7 Countries, 2003**



Note: Single individual without children at the income level of the average production worker.
Source: Organization for Economic Cooperation and Development, ***Taxing Wages***, 2004

Chart 3.8 **Change in the Tax Burden as a Percent of Labor Costs, G-7 Countries, 1996 - 2003**



Note: Married, one-earner with two children; labor costs are equivalent to the average production worker
Source: Organization for Economic Cooperation and Development

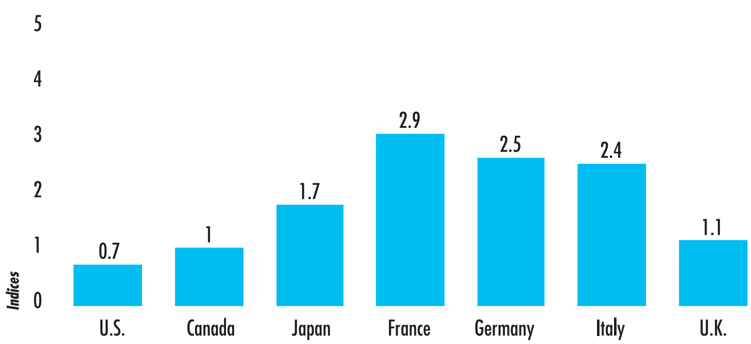
Labor and Product Market Flexibility

Chart 3.9 shows an OECD index of labor market flexibility in the G-7 countries in 2003. In this index, labor market flexibility is measured by the extent of regulations governing the hiring and firing of workers. These rules are termed employment protection legislation (EPL). The following factors are considered: the extent of procedural requirements that employers must follow in dismissals; notice and severance pay requirements; and the degree of regulation of temporary forms of employment.

The index ranges from zero (no restrictions) to six (very restrictive). By these measures, the United States has the most flexible labor markets, followed by Canada and the United Kingdom. France and Germany have the most restrictive labor markets.

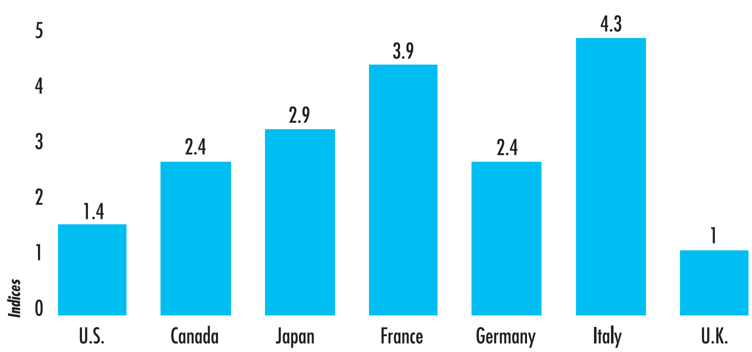
Chart 3.10 shows product flexibility measures on the same index for 1998. Product market flexibility is measured by the extent of industry regulation. It is based on a simple average of

Chart 3.9 **Labor Market Flexibility Measures, G-7 Countries, 2003**



Source: Organization for Economic Cooperation and Development

Chart 3.10 **Product Market Flexibility Measures, G-7 Countries, 1998**



Source: Organization for Economic Cooperation and Development

indicators for seven industries in 1998, where each industry is rated from zero (no restrictions) to six (very restrictive). The industries are as follows: gas; electricity; postal and courier activities; telecommunications; air transportation; railroads; and road freight. These industries are not comprehensive in describing the economy, but they largely focus on infrastructure and thus indicate the bureaucratic ease of moving goods and resources from producers to consumers.

Depending on the industry, the following factors were considered: barriers to entry; public ownership; market structure; vertical integration; and price controls. Barriers to entry are essential since they affect job creation through the level of regulation surrounding entrepreneurship. The United Kingdom had the lowest index of product market flexibility, followed by the United States. Italy, France and Japan had the most restrictions on product markets.

Conclusion

There are considerable differences among G-7 labor markets. Continental European countries and at times, Japan are characterized by slower growth, higher taxes, and more regulation. In contrast, the United States, followed by Canada and the United Kingdom, leads a group that can typically be characterized by stronger growth, less taxes, and fewer regulations on labor and industry. These differences help the U.S. economy, and others structured like it, react faster to economic cycles, provide greater opportunities to workers, and extend prosperity to a greater share of the population.

The Bush Administration seeks to open markets for the goods and services produced by American workers, to make sure that American workers are able to compete on a level playing field, and to ensure that American workers have the tools and training they need to compete.

- **Opening Markets:** President Bush has sought every opportunity to open new markets for American workers' goods and services. The Administration
  - Worked with Congress to pass Trade Promotion Authority, after an eight-year lapse.
  - Launched with 147 other economies the Doha negotiations to open markets worldwide through improved World Trade Organization commitments.
  - Signed or completed free trade agreement (FTA) negotiations with 10 countries and has launched or will soon begin FTA negotiations with 11 more countries.
- **Trade Enforcement:** The Bush Administration has worked to ensure a level playing field for American workers and farmers through these new trade agreements and has used every tool available to ensure that other countries live up to their commitments. For instance, in April, the Administration resolved eight trade disputes with China and Korea, clearing the way for American workers' goods and services.

- **Help for Trade-Affected Workers:** President Bush signed into law the new Trade Adjustment Assistance Act, which provides the most generous benefits ever to an expanded range of workers affected by trade. This assistance includes a 65 percent tax credit for health care and up to two years of training and income support.

helping the less fortunate